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Microsoft®

June 29, 1995

BY HAND DELIVERY

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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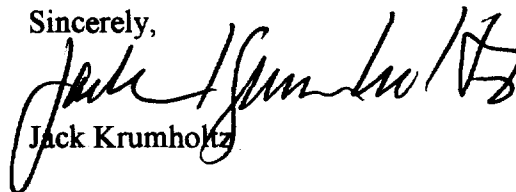
Re: **In the Matter of End User Common Line Charges -
CC Docket No. 95-72**

Dear Mr. Caton:

Please find enclosed for filing the original and four (4) copies of the Comments of Microsoft Corporation in response to the Notice of Proposed Rulemaking in CC Docket No. 95-72.

If you have any questions or need any additional information please feel free to contact me at (202) 895-2169.

Sincerely,


Jack Krumholz

Enclosures

No. of Copies rec'd 075
List A B C D E

cc: **Chairman Reed E. Hundt**
Commissioner Andrew C. Barrett
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Commissioner James Quello
Peggy Reitzel, Policy and Program Planning Division, Common Carrier
International Transcription Services, Inc.

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.**

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**IN THE MATTER OF
END USER COMMON LINE
CHARGES**

CC Docket No. 95-72

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COMMENTS OF MICROSOFT CORPORATION

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Attorneys for Microsoft Corporation

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**BEFORE THE
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**IN THE MATTER OF
END USER COMMON LINE
CHARGES**

CC Docket No. 95-72

COMMENTS OF MICROSOFT CORPORATION

Microsoft Corporation submits these comments in response to the Commission's Notice of Proposed Rulemaking released May 30, 1995. Integrated Systems Digital Network ("ISDN") technology is of great value in expanding the National Information Infrastructure ("NII"). Thus, it is essential that ISDN or other derived channel technologies should be priced so as to promote rather than retard usage. Accordingly, for the reasons we set out below, Microsoft urges the Commission to utilize the per facility approach set out in its NPRM (§§ 24-26) and to initiate a comprehensive review of whether access charges continue to make sense in a telecommunications environment where competition is increasing and, if so, how those charges should be recovered.

I. MICROSOFT'S INTEREST IN THIS PROCEEDING

As Pacific Bell noted to the Commission, its single line ISDN product underwent an 800% increase in 1994 and all ISDN products at least doubled growth in 1994.¹ These substantial

¹ Pacific Bell Petition for Waiver of Part 69-108 as Applied to Derived Channel Services such as ISDN, filed February 21, 1995.

increases reflect the growing residential and commercial demand for high speed access to the Internet and online digital information services. Still, the United States lags far behind many other countries in widespread deployment of ISDN.

Affordable ISDN would enable millions of Americans to benefit from new digital information services. For example, the Microsoft Network ("MSN"), which will debut later this year, will offer its customers access to our network services either via dialup modems or via ISDN. ISDN offers customers both faster connection (several seconds to establish the line versus 20-30 seconds via modem) as well as much higher data rates. We believe that customers will rely on ISDN to access MSN services at higher data rates so long as they are not penalized because of high or multiple subscriber line charges ("SLC").

II. DISCUSSION

A. The Current Access Charge Structure No Longer Makes Sense.

ISDN is an important interim technology that will serve as an early access ramp to the information highway. Accordingly, the issue of ISDN cost will be a factor in determining whether the NII is a freeway or a toll road. It is absolutely essential, in Microsoft's view, both as a significant user of ISDN services and as an information service supplier, that the cost of ISDN be kept as low as possible to promote the growth of ISDN, other derived channel technologies, and ultimately the NII.

The Commission's access charges are designed to recover a greater portion of non-traffic sensitive local loop costs assigned to the interstate jurisdiction from multi-line business customers. In a world without derived channel technologies, the cost of that "tax" is six dollars per month per line. In an ISDN environment, however, the result from a literal reading of the Commission's

existing rule is that the SLC increase dramatically -- *e.g.*, a user of a 24 channel ISDN interface would now have to pay an SLC of \$144. Most ISDN consumers will be unable to bear such significant rate increases with the result that this technology will be greatly underutilized.

As the Commission recognizes (NPRM ¶ 13), the interstate access market has changed dramatically since access charge rules were adopted. Competitive access providers, cable television companies and inter-exchange carriers are either in or on the way to entering the local telephone or interstate access market. As a result, local exchange carriers will face increasing competition. To the extent access costs are high because of regulatory fiat rather than economic reality, large users will simply seek to bypass the LEC facilities wherever it is practical to do so. Accordingly, since the marketplace and the technology used in that marketplace are both changing quite dramatically, it is much less likely that an access charge structure predicated on the existence of a monopoly at the local level continues to make sense. For example, the Commission assumes that if LECs are unable to recover NTS local loop costs from SLCs, they will seek to do so through carrier common line ("CCL") charges. To the extent IXCs can bypass the local exchange (*see, e.g.*, NPRM ¶ 13 and n.31), there are marketplace constraints on any CCL increase. The real question is whether the current system of access charges continues to make sense and, if so, how should those charges be imposed in a competitive rather than a monopoly environment.

B. The Commission Should Permit a Per-Facility Charge and Review the Access Charge Structure.

The Commission's proposed options are all arbitrary. The derived per-channel approach in essence penalizes innovation (NPRM ¶31). The intermediate options are nothing more than a splitting of the difference between users and carriers as apparently perceived by the Commission, but still do not grapple with the fundamental question of whether there should be any increase in access charges. Although the per facility approach may also be arbitrary in that it continues in place the per-line charge that existed before derived channel services were introduced into the access charge scheme, on balance, Microsoft believes it is the best. It is most likely to promote the use of ISDN and other derived channel services and thereby promote greater use of emerging information technologies and increase NII expansion. Thus, for the time being, the per-facility approach is in the public interest.

However, we also believe that the question of access charge regulation must be re-examined by the Commission. If competition is increasing rapidly, then market forces rather than government mandate, can and should regulate cost recovery. There is simply no need for the elaborate SLC and CCL regulatory requirement. Accordingly, we urge the Commission to re-examine the fundamental question of SLCs and CCLs to see if they will continue to be necessary in a more competitive marketplace.


Only once that question is answered should the Commission revisit the per-facility approach. Moreover, until that issue has been resolved, CCL charges would not be used to compensate for any reduced SLC revenues. As we would hope that this policy review could be completed in a reasonable period, this should not work a hardship on the LECs.

III. CONCLUSION

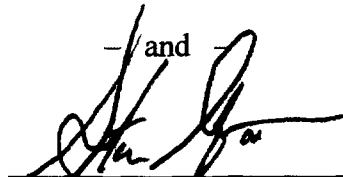
For the foregoing reasons, Microsoft respectfully recommends that the Commission adopt a per-facility approach for derived channel SLCs combined with a freeze on CCL increases pending the outcome of a general review of access charge regulation in a more competitive telecommunications environment.

Respectfully submitted,

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- and -


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